



# Republican Policy Committee

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March 20, 1996

## OMB: Just Call it the Office of Magic Balance

As the Clinton Administration's Fiscal Year 1997 budget offering to Capitol Hill yesterday demonstrates, OMB has come to stand for the "Office of Magic Balance." Without the gravity of the Congressional Budget Office (CBO) to hold them to earth, the Clinton Administration's budgeteers, under the spell of OMB, once again take off in an unfettered flight of fiscal fantasy.

In just a month since the presentation of his "thematic" FY 1997 budget, President Clinton has managed to make the deficit disappear a whole year earlier — at that rate if he had only waited until August, the deficit would have disappeared altogether! How does he do it? Optimistic economic assumptions. If the White House introduced us to Rosy Scenario in February, we must be meeting her sister Ruby now.

This faster balance comes *despite more spending and more taxes*. The inconsistencies — not just between President Clinton and reality, but between Clinton in February and Clinton in March — are truly magical.

### From Rosy Scenario to Ruby Scenario

How optimistic is the Clinton Administration's economic scenario? OMB's prediction until the next century is significantly *more optimistic than the most respected private forecaster*, the Blue Chip survey of private economists.

#### Real Gross Domestic Product (GDP)

(Percent Change, Fourth Quarter to Fourth Quarter, Chain-Weighted)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
OMB FY97	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Blue Chip*	1.9	2.1	1.9	2.0	2.4	2.3	2.3

[\*Blue Chip Survey of March 10, 1996]

- Despite the fact that the economy has worsened in the most recent months, the Clinton Administration has upgraded its own assumptions in the last month so that its new budget projects a deficit improvement of \$107.9 billion between 1996-2002 — *with the deficit now disappearing in 2001*. This, despite FY 1996 being almost half over and

Clinton insisting on more spending in this fiscal year. *This works out to a five-and-a-half year balanced budget plan.*

- ◇ Recall that just last year, President Clinton said it would take ten years to reach balance: *"It took decades to run up this deficit; it's going to take a decade to wipe it out."* [6/13/95]
- ◇ In fact when OMB Director Álive Rivlin was asked just last summer whether there was "any way to achieve President Clinton's budget priorities in seven years,"she replied: *"No. . . . Oh, if the economy behaved much better than we expect . . . but it wouldn't be at all sensible to assume that."* [7/31/95]

Such use of over-optimism is continued in the Administration's estimates of interest rates, despite clear and current evidence to the contrary.

- President Clinton claims \$119 billion in new interest savings from FYs1996-2002 in just six weeks. This is despite the fact that the 30-year bond has risen three-quarters of a point just since January 1996, and the fact that the 10-year bond stood at 6.37 percent the day he released the budget. This new budget still claims that interest rates on the 10-year bond will be just 5.6 percent this year and will continue to fall to 5.0 percent in two years — a more than 20-percent decline.

**Interest Spending: Clinton vs. Clinton**  
(In billions of \$'s)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>96-02</u>
2/96	244.6	249.3	252.2	255.1	254.4	251	242.9	
3/96	241.1	238.5	236.1	234.6	229.9	227	223.2	
Difference	3.5	10.8	16.1	20.5	24.5	24	19.7	119.1

**More Spending, More Taxes**

Of course, such wishful thinking allows for both additional spending and additional taxes.

**Total Outlays: Clinton vs. Clinton**  
(In billions of \$'s)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
2/96	1578.6	1645.2	1689.7	1735	1789.5	1849	1875.3	12,162.3
3/96	1572.4	1635.3	1675.9	1717	1761.4	1811.5	1868.3	12,041.8
1 mo. dif.								120.5
Dif. fr FY96	----	62.9	103.5	144.6	189	239.1	295.9	1035

### Total Revenues: Clinton vs. Clinton

(In billions of \$'s)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
2/96	1414.9	1476.4	1552.2	1632.4	1722	1814.6	1913.3	11525.8
3/96	1426.8	1495.2	1577.9	1652.5	1733.8	1819.8	1912.2	11618.2
Dif.	11.9	18.8	25.7	20.1	11.8	5.2	-1.1	92.4

- ▶ President Clinton's budget would spend **\$1.035 trillion more** over the FY96-02 period than is being spent this year.
- ▶ By FY 2002, **total spending will be nearly \$300 billion (\$295.9 billion) higher** than it is this year.
- ▶ President Clinton **has not trimmed overall federal program spending since his February request**. Instead by claiming savings in interest payments, Clinton claims he has reduced spending on federal government programs from his 2/96 request when in fact he has not.
- ▶ In fact, mandatory spending has been increased by \$25 billion in the last month.

Despite the Clinton Administration's profligate attention to the government's spending needs, it has little time for the American taxpayers.

- ▶ **There are more than \$60 billion in new taxes and fees** in the budget, while the claimed net tax cut is only a little more than \$60 billion.
- ▶ Clinton has added **\$92 billion in additional revenues** since his 2/96 request.

### Less Defense

- ▶ None of that additional discretionary spending would go to our nation's defense. **Defense spending will continue on the steep decline** that it has been on since President Clinton took office, falling from \$265.6 billion in FY 1996 to \$258.7 billion in FY 1997.

### National Defense Spending

(In billions of \$'s)

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
298.4	291.1	281.6	272.1	265.6	258.7	254.8	256.5	262.9	266	275.5

- ◊ In fact, according to the President's budget national defense spending will stay below last year's total until FY 2001.

- ◇ The comparison to when President Clinton took office is even more dramatic with *FY 2002 National Defense spending falling below its level of 11 years earlier.* Over that 11-year period, spending would be a cumulative \$299.2 billion less.
- ◇ Even compared to President Clinton's own first-year total, National Defense spending would be a cumulative \$226.2 billion less.
- ▶ ***Defense personnel numbers, too, will suffer.***
  - ◇ Under Clinton, Defense personnel (as measured by full-time equivalent employment, FTEs) will have fallen by 206,000 — from 973,000 in FY 1992 to 767,000 in FY 1997.
  - ◇ In fact, President Clinton's vaunted federal personnel cut of 31,000 next year is really a 33,000 military personnel cut and a 2,000 federal bureaucrat increase.
  - ◇ Military personnel will fall from 800,000 in FY 1996 to 767,400 in FY 1997. In contrast, nondefense federal personnel will increase in FY 1997.

## He Cuts Education

- ▶ ***Education, too, will be cut.*** Despite the Administration's rhetoric, over the next three years total spending by the Department of Education will actually be \$2.7 billion less than this year's spending.

### Department of Education Spending

(Outlays in billions of \$'s)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Total</u>
3/96 Budget	30.4	29.6	28.9	30	
FY 1996 spending	30.4	30.4	30.4	30.4	
Difference from FY 1996	0	-0.8	-1.5	-0.4	-2.7

More spending plus more taxes will hurt the economy. Yet, OMB still manages to make them equal more optimistic economic assumptions that it credits to deficit reduction. How do they do it? In the Clinton Administration's fiscal fantasyland, it's easy — in fact, it's magic. It will be very interesting to see what happens to the Clinton budget once CBO administers a healthy dose of reality.

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